

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Tony Hammond; and
Robert G. Taub

Periodic Reporting
(Proposals Eight and Nine)

Docket No. RM2012-8

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL
PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSALS EIGHT AND NINE)

(Issued October 2, 2012)

On September 28, 2012, the Postal Service filed a petition pursuant to 39 CFR § 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in periodic reporting.¹ The Postal Service also requests that the Commission complete action on the petition by December 1, 2012, so that the proposed changes can be incorporated into the Annual Compliance Report (ACR) for FY 2012. Petition at 1.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Eight and Nine), September 28, 2012 (Petition).

Proposal Eight. Transfer Mail Processing Cost Model for Machinable and Irregular Standard Mail Parcels to the Mail Processing Cost Model for Parcel Select/Parcel Return Service

The Postal Service proposes to move the machinable and irregular cost worksheets contained in the Standard Mail parcel mail processing cost model to the Parcel Select/Parcel Return Service mail processing cost model and to relabel the worksheets as “Lightweight Parcel Select.” *Id.* at 3. The Commission, in Docket No. MC2010-36, conditionally approved the transfer of the commercial Standard machinable and irregular parcel price categories from the market dominant product list to the competitive product list as “Lightweight Parcel Select,” a subcategory of Parcel Select.² The transfer became effective with the implementation of new prices in January 2012.³ The Postal Service states that costs reported for FY 2012 should reflect the incorporation of Lightweight Parcel Select into Parcel Select. Petition at 4.

The Postal Service states that the proposed changes are solely mechanical in nature because the number of machinable and irregular price categories, as well as the presort level and destination entry point for each price category, have not changed as a result of the commercial Standard Mail parcel price categories being moved to the competitive products list. *Id.* at 3. The Postal Service also proposes that the Parcel Select and Lightweight Parcel Select model cost estimates be used to de-average the mail processing cost by shape estimate for all Parcel Select in the FY 2012 ACR. *Id.*

² Docket No. MC2010-36, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011 (Order No. 689). The Commission imposed “the following conditions: (1) the Postal Service files a notice of competitive price adjustment for Parcel Select rates, including Lightweight Parcel Select parcels, that demonstrates such rates satisfy 39 U.S.C. 3633(a) and 39 CFR part 3015; (2) the Commission issues an order finding that the Parcel Select rates in (1) above satisfy 39 U.S.C. 3633(a) and 39 CFR part 3015; and (3) the Standard Mail Parcels transfer authorized by this Order is not effective until the effective date of prices authorized in (b), above.” *Id.* at 19.

³ In Docket No. CP2012-2, the Commission approved an 8.9 percent rate increase for Lightweight Parcel Select and found that the Postal Service had met the conditions set out in Order No. 689. Docket No. CP2012-2, Order No. 1062, Order Approving Changes in Rates of General Applicability for Competitive Products, at 4, 10-13, December 21, 2011.

Proposal Nine. Modify First-Class Mail, Standard Mail, and Periodicals Flats Cost Models

The Postal Service proposes to make eight modifications to the Periodicals Flats model. The Postal Service also proposes to apply four of the modifications to the First-Class Mail and Standard Mail Flats models. *Id.* at 5. The Postal Service states that the model for each class is contained in library reference USPS-LR-RM2012-8/1, with the proposed modifications incorporated (via toggle switches).⁴ Some of the modifications are straightforward. Others, however, involve significant changes, particularly for Periodicals.

The first proposed modification removes the ability to isolate (via toggle switches) the effect of individual changes proposed in Docket No. RM2012-2. *Id.* Those changes were approved by the Commission. The Postal Service considers the switches to be superfluous. *Id.* This modification affects the models for all three classes.

The second modification corrects what the Postal Service describes as “cell referencing errors” in the Periodicals model. *Id.*

The third modification accounts for more sources of rejects and adjusts some reject rates to make them consistent with Management Operating Data System (MODS) estimates. *Id.* at 6-8. This modification affects the models for all three classes.

The fourth modification accounts for changes in allied operations resulting from the introduction of the AFSSM 100 and FSS. The modifications only apply to the Periodicals model. *Id.* at 9-10.

The fifth modification creates class-specific FSS coverage factors. Each coverage factor is the ratio of MODS FSS total pieces fed (by class) to volume as reported in the Revenue, Pieces, and Weight report. *Id.* at 10-11. This modification affects the models for all three classes.

⁴ *Id.* According to the Postal Service, the impact of individual modifications can be estimated by manipulating the toggle switches. The Postal Service has not provided explicit estimates of the impact of individual modifications in Proposal Nine, nor has it provided an estimate of aggregate impact.

The sixth modification removes the costs of sorting mail to post office boxes from all three flats models and designates these costs as “non-modeled.” *Id.* at 11.

The seventh modification updates the estimates of the average number of cross-dock movements by container type by entry facility for Periodicals. The update relies on Mail.dat files by publication and a Postal Service database of individual transportation routes. The Postal Service states that the new estimates are generally similar to those provided in Docket No. R2006-1. *Id.* at 11-15.

The eighth modification uses the results of the seventh modification to simplify the development of costs by container type by entry facility for Periodicals. According to the Postal Service, simply having the number of facilities that a container passes through before it reaches the destination facility is sufficient to calculate the number of times the average container incurs each process. *Id.* at 15-18.

It is ordered:

1. The Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Eight and Nine), filed September 28, 2012, is granted.
2. The Commission establishes Docket No. RM2012-8 to consider the matters raised by the Postal Service's Petition.
3. Interested persons may submit comments on Proposals Eight and Nine no later than October 29, 2012.
4. Reply comments are due no later than November 8, 2012.
5. Lawrence Fenster is appointed to serve as the Public Representative to represent the interests of the general public in this proceeding.

6. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary